

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 EA-09 ISO-00 AID-05 CIAE-00 COME-00

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TO SECSTATE WASHDC 7465

TREASURY DEPT WASHDC

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMCONSUL HONG KONG

USMISSION OECD PARIS

UNCLAS TOKYO 6524

E.O. 11652: N/A

TAGS: EFIN, JA

SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS - APRIL 28-MAY 4

1. SUMMARY: ECONOMIC PLANNING AGENCY (EPA) EXPECTS HEALTHY GNP ADVANCE (PLUS 5 PERCENT SAAR) IN FIRST QUARTER CALENDAR 1977 ON STRENGTH OF REBOUND IN GOVT SPENDING INCREASE IN NET EXPORTS, AND GOOD PERFORMANCE OF PRIVATE HOUSING. INTERNATIONAL RESERVES ROSE \$320 MIL IN APRIL. INTEREST RATES CONTINUE TO DROP AND EVIDENCE OF FOREIGN INTEREST IN YEN BORROWINGS CONTINUES TO ACCUMULATE ADDITIONAL TAX CUT LEGISLATION PASSED. END SUMMARY.

2. ACCORDING TO PRESS REPORTS, THE ECONOMIC PLANNING AGENCY (EPA) ESTIMATES THAT IN FIRST QUARTER CY 1977 GNP GREW 1.3 PERCENT, OR SLIGHTLY BETTER THAN 5 PERCENT ANNUAL RATE. WHILE THIS IS ABOUT TWICE AS FAST AS IN PREVIOUS QUARTER, UNCLASSIFIED

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IT WILL STILL PROBABLY LEAVE JAPAN A LITTLE SHORT OF REACHING ITS FISCAL YEAR 1976 GNP TARGET (REVISED) OF A 5.7 PERCENT INCREASE. EPA OFFICIALS REPORTEDLY ASCRIBE HEALTHY FIRST QUARTER PERFORMANCE TO THREE PRINCIPAL FACTORS: (A) SLOWDOWN IN GOVT SPENDING WHICH CONTRIBUTED TO ECONOMIC SLUGGISHNESS IN LATTER HALF OF CY 1976 HAS BEEN REVERSED BY SHARP PICKUP IN GOVT OUTLAYS IN EARLY

1977; (B) FIRST QUARTER 1977 BALANCE OF PAYMENTS DATA INDICATE STRONG NET EXPORT POSITION; (C) PRIVATE RESIDENTIAL INVESTMENT, BUOYED BY INCREASED FUND ALLOCATIONS FROM JAPAN HOUSING LOAN CORPORATION, APPEARS TO HAVE RECORDED HEALTHY FIRST QUARTER INCREASE. ON THE OTHER HAND, EPA REPORTEDLY BELIEVES RECENT EFFORTS BY BUSINESSMEN TO CORRECT FOR WHAT THEY VIEW AS EXCESSIVE INVENTORIES AND THE GENERALLY CAUTIOUS BUSINESS MOOD HAVE KEPT BOTH INVENTORY AND PLANT AND EQUIPMENT INVESTMENT MODERATE IN THE FIRST QUARTER. IF CONFIRMED, THE 1.3 PERCENT QUARTERLY INCREASE ESTIMATED FOR JAN-MAR 1977 WOULD BRING REAL GNP RISE IN FISCAL YEAR 1976 AS A WHOLE TO JUST UNDER 5.6 PERCENT, (SUBJECT TO REVISIONS IN ESTIMATES FOR EARLIER QUARTERS).

3. MINISTRY OF FINANCE (MOF) ANNOUNCED MAY 2 THAT JAPAN'S OFFICIAL INTERNATIONAL RESERVES ROSE \$320 MIL IN APRIL. ALTHOUGH DETAILS ON APRIL BALANCE OF PAYMENTS OBVIOUSLY NOT YET AVAILABLE, MOF OFFICIALS OBSERVED THAT APRIL RESERVE INCREASE OCCURRED AT A TIME WHEN STRONG EXPORT PERFORMANCE CONTINUES. MOF OFFICIALS ALSO ESTIMATE SMALLER NET PAYMENTS FOR SERVICES AND TRANSFERS IN APRIL (\$500 MIL) THAN IN MARCH (690 MIL), PRIMARILY DUE TO UPSWING IN INVESTMENT INCOME RECEIVED FROM ABROAD. INFLOWS OF LONG-TERM CAPITAL THROUGH EXTERNAL BOND ISSUES AND FOREIGN PURCHASES OF JAPANESE SECURITIES, ON THE OTHER HAND, ARE SAID TO HAVE SLOWED RAIPIDLY IN APRIL DUE TO INTEREST RATE REDUCTIONS IN JAPAN IN CONJUNCTION WITH ONE PERCENT OFFICIAL DISCOUNT RATE CUT BY BOJ IN MID-APRIL.

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4. DECLINE IN BOND YIELDS
ACCELERATED IN APRIL AS YIELDS DROPPED FOR FIFTH STRAIGHT MONTH, TO 7 PERCENT PER ANNUM LEVEL. ON APRIL 19, SECONDARY MARKET PRICE OF GOVT BONDS (GOJ BONDS) EXCEEDED PAR FOR THE FIRST TIME IN FOUR YEARS, BRINGING SECONDARY MARKET BOND YIELDS CONSIDERABLY BELOW EFFECTIVE YIELD TO MATURITY ON NEW SUBSCRIPTIONS. ON APRIL 25 LONG-TERM RATE REDUCTIONS OF UP TO 0.8 PERCENTAGE POINTS WERE AGREED TO AFTER CONSULTATION AMONG MOF, BANK OF JAPAN, COMMERCIAL BANKS, AND SECURITIES FIRMS. EFFECTIVE WITH MAY ISSUES, YIELD TO SUBSCRIBERS ON NEW GOJ TEN-YEAR BOND ISSUES WAS LOWERED TO 7.49 PERCENT PER ANNUM, AND AA RATED INDUSTRIAL BOND SUBSCRIPTION YIELDS LOWERED TO 8.09 PERCENT. RATE CHANGE FOR TELEPHONE AND TELEGRAPH (NTT) BONDS, HOWEVER, HAS NOT YET BEEN ANNOUNCED, ALTHOUGH FIELD ON GOVT-GUARANTEED BONDS WHICH NTT BOND YIELD CLOSELY PARALLELS, WAS REDUCED TO 7.68 PERCENT PER ANNUM, EFFECTIVE WITH MAY ISSUES.

SECONDARY MARKET BOND YIELDS

(ANNUAL RATE, IN PERCENT)

	GOVT BONDS	NTT BONDS	INDUSTRIAL BONDS
	(JEI 179)		
FEB	8.503	8.506	8.483
MAR	8.416	8.328	8.428
APR	8.838	7.836	7.735

5. UNCONDITIONAL CALL MONEY RATE WAS LOWERED TWICE IN APRIL. SUCCESSIVE REDUCTIONS OF 0.25 PERCENTAGE POINT ON APRIL 4 AND ONE PERCENTAGE POINT ON APRIL 19 DROPPED RATE TO 5.25 PERCENT PER ANNUM, THE LOWEST LEVEL SINCE MARCH 1973. AVERAGE CALL MONEY RATE (JEI 178) WAS 5.87 PERCENT FOR APRIL, 0.82 PERCENTAGE POINT DECLINE FROM MARCH.

6. ACCORDING TO REPORTS OF TOKYO PRESS CONFERENCE BY REUBEN STERNFELD, IDB EXECUTIVE VICE PRESIDENT, INTER-AMERICAN DEVELOPMENT BANK IS PLANNING TO ISSUE DOLLAR 15 MILLION UNCLASSIFIED

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IN YEN-DENOMINATED BONDS IN TOKYO MARKET LATER THIS YEAR. STERNFELD SAID IDB IS ALSO INTERESTED IN FLOATING YEN-DENOMINATED BONDS IN EUROPEAN MONEY MARKETS. REPORTS ARE ALSO CIRCULATING THAT THE MOF WILL APPROVE A PHILIPPINES YEN BORROWING IN THE TOKYO MARKET AROUND MID-YEAR.

7. HOUSE OF COUNCILLORS PASSED MONDAY, MAY 2, IMPLEMENTING LEGISLATION FOR SUPPLEMENTARY YEN 300 BIL TAX CUT, WHICH WILL BE DISTRIBUTED AS REBATE ON CY 1976 TAXES. SHOESMITH

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